

AR31

ORCHAN MINES LIMITED

ANNUAL REPORT 1971



Digitized by the Internet Archive
in 2024 with funding from
University of Alberta Library

https://archive.org/details/Orch1625_1971

ORCHAN MINES LIMITED

HEAD OFFICE: 44 King St. West, Toronto 1, Ontario

MINE OFFICE: Matagami, Quebec

DIRECTORS

J. P. DOLAN

W. S. ROW

MICHEL C. DUMAS

D. E. G. SCHMITT

J. H. STOVEL

OFFICERS

J. P. DOLAN - - - - - *President*

D. E. G. SCHMITT - - - - - *Vice-President*

R. C. ASHENHURST - - - - - *Secretary*

E. K. CORK - - - - - *Treasurer*

GENERAL MANAGER

D. E. G. SCHMITT

TRANSFER AGENT AND REGISTRAR: STERLING TRUSTS CORPORATION, Toronto, Ontario

ANNUAL MEETING: May 2, 1972, 11.30 a.m. Toronto Time, Royal York Hotel, Toronto, Ontario

DIRECTORS' REPORT TO THE SHAREHOLDERS

To the Shareholders:

The nineteenth annual report of your company includes a consolidated balance sheet as of December 31, 1971, a consolidated statement of operations for the year ended on that date, and the report of the auditors. A report from the Manager, Mr. J. W. Jordan, summarizing operations at the mine is also included.

Earnings per share were 33¢ as compared with 52¢ in 1970. Four interim dividends, each of 10¢ per share, were paid. To date a total of \$1.35 per share has been paid in dividends and a further 10¢ has been declared payable on March 15 to shareholders of record on February 18.

There was no production from subsidiary, associated or other companies through the Orchan mill during the year. Revenue was some \$2,180,000 lower due to the lesser tonnage milled, slightly lower grade of ore and sharply depressed prices for copper, all of which were only partially offset by the improved price for zinc.

Total minesite costs, including depreciation and amortization, were reduced by \$320,000 but the lower tonnage resulted in a higher unit cost. Expenditures for capital account at the mine have achieved some further improvement in copper and silver recoveries.

Underground development and exploration drilling added 205,780 tons in a new No. 5 orebody between the 5th and 7-50 levels. Proven reserves in the Orchan mine at January 1, 1972 totalled 2,263,300 tons with average grade of 9.3% zinc and 1.1% copper.

Expenditures on the Garon Lake mine project were \$435,600 for a total of \$900,400 to date. A bridge across the Bell River is now being constructed for the Quebec Government, with completion expected by September 1972. Preparation of the mine is on schedule to permit production after that date. Underground work encountered the ore at 200 feet below surface and the drill-indicated reserves of 398,000 tons remained unchanged. The mining claims and all assets held by the wholly owned subsidiary, Garon Lake Mines Limited, were sold and transferred to Orchan Mines Limited in return for advances made to cover exploration and development expenditures on the property to date.

Under the purchase agreement made in 1970 for the Radiore No. 2 property, a second payment of \$50,000 was made. The final payment of \$75,000 will not be due until production has been achieved. No further work was done but Orchan's interest in that property was transferred to the wholly owned subsidiary company, Bell Allard Mines Limited.

CANADIAN ELECTROLYTIC ZINC

Production was 119,600 tons of zinc compared with 124,000 tons in 1970. Metal recoveries and current efficiency were improved and inventories of zinc and cadmium at year end were lower.

Production at St. Lawrence Fertilizers continued at 67% of capacity. Results were affected by lower realization on fertilizer sales and higher production costs. Expenditures for plant improvements were reduced substantially.

On April 1, 1971, the assets of General Smelting were sold to a new company, Federated Genco Limited, which also acquired certain assets of Federated Metals of Canada Limited. The new company owns plants in Burlington, Scarborough and Montreal. General Smelting owns 40% of Federated Genco. Generally poor business conditions affected operating results but the improved market for zinc dust has enabled the Burlington division to make a contribution to earnings of the new company.

ZINC

Free World Zinc consumption reversed a downward trend established in 1970 and rose 3% due mainly to a 6% increase in the United States. Smelter closures in the United States and United Kingdom caused metal production to decline 4.2% to 4,200,000 tons.

The overseas producer price basis increased in June from £127.95 (13.9¢/lb.) to £150 (16.3¢/lb. or 17.7¢/lb. at current rate of exchange) per metric ton. The U.S. price rose during the year from 15¢ to 17¢ per pound delivered in July, and in August was frozen at that level by the U.S. Government price control regulations.

Zinc metal consumption growth is expected to continue but smelter closures in the United States and Britain, together with increased mine production, particularly in Canada, has resulted in an over-supply of concentrates.

COPPER

World refined copper production was down 4.5% due to strikes in the U.S.A. and production losses in Chile and Zambia but supplies were adequate because of a general slowdown in industrial expansion.

Prices peaked for the year in early spring at the equivalent of 58¢ U.S. per pound overseas, 52¾¢ in the United States and 53¢ in Canada, except for an adjustment of the Canadian domestic price in June to 53¾¢, reflecting the then weaker Canadian dollar.

Following termination of the U.S. strikes in the third quarter, world refined output exceeded deliveries for the balance of the year. In November, U.S. producers' prices were reduced 2½¢ per pound to 50¼¢, and the Canadian domestic price was reduced to 50⅜¢. The year ended with North American prices at these levels and the overseas price at the equivalent of 47½¢ U.S. per pound.

Your Directors wish to record their appreciation of the contributions made to the success of the operations during the year by the efforts of the Manager, staff and all employees.

On behalf of the Board,

J. P. DOLAN,
President.

Toronto, Ontario,
February 4, 1972.

MINE MANAGER'S REPORT

To the President and Directors:

This report summarizes operations for the year ended December 31, 1971.

PRODUCTION

The following tabulation shows a comparison of production from the Orchan Mine for the past two years:

	1971	1970
Ore treated — dry tons	409,490	414,520
Zinc concentrate — dry tons	74,370	80,080
Zinc contained in concentrate — pounds	79,473,270	84,822,680
Copper concentrate — dry tons	18,780	20,740
Copper contained in concentrate — pounds	6,272,400	6,966,550
Silver contained in concentrate — ounces	254,220	225,880
Gold contained in concentrate — ounces	1,398	1,214

MINE

The following tabulation shows underground development advances:

	1971	1970	To Date
Exploration and development — feet	3,031	1,974	39,572
Stope preparation — feet	2,544	3,445	44,742
Total — feet	5,575	5,419	84,314
Diamond drilling — feet	29,910	31,071	277,839

Drifts on the 5th (750') and 7th (1050') levels were advanced a total of 711 feet to the west for exploratory diamond drilling of the key tuffite horizon. Diamond drilling from these levels has indicated 205,800 tons of additional ore grading 9.1% zinc and 1.3% copper which has been included in the ore reserves.

The intermediate 7-50 level (1240') was advanced 1150 feet for development of lower grade ore below the 7th level.

Mine production totalled 409,920 tons of which 30% was taken from No. 1 Open Pit, 37% from cut-and-fill stopes and the remainder from mining in long hole underground stopes.

ORE RESERVES

Compared with estimates of January 1, 1971, the proven ore reserves were reduced by 238,200 tons and at January 1, 1972 were:

Orebody	Tons	% Zinc	% Copper	Ounces/Ton Silver	Gold
No. 1	277,425	13.6	0.8	1.41	0.01
No. 1A	124,750	13.3	2.4	0.92	0.01
No. 2	464,210	10.5	1.2	1.09	0.01
No. 3	879,585	8.2	1.1	1.07	0.01
No. 4	311,550	5.1	1.0	0.44	0.01
No. 5	205,780	9.1	1.3	0.73	0.01
	2,263,300	9.3	1.1	1.02	0.01

CONCENTRATOR

Milling averaged 1,122 tons per day from the Orchan mine with average grade of 10.66% zinc and 0.93% copper. Metal recoveries were 91.01% and 82.39% respectively.

The custom circuit was idle throughout the year.

BELL ALLARD MINES LIMITED

Some 3,000 feet of surface diamond drilling was carried out on the South Group of claims. Results were of no economic significance.

GARON LAKE DIVISION

A development program to prepare the small orebodies for production in the 4th quarter of 1972 was continued. Progress was as follows:

- 1,566 lineal feet of adit drift at 11° decline.

- 1,440 lineal feet of advance on the 1st level (125') and the haulage drift for the 'B' Zone.

GENERAL

The supply of labor applicants was adequate but there was a periodic shortage of experienced miners. A new 3-year collective agreement was reached with the employee members of the U.S.W.A. union.

I wish to express my appreciation to the Department Heads, Messrs. M. A. Cawley, Mine Superintendent, J. J. Bell, Concentrator Superintendent, O. F. Connelly, Mechanical-Electrical Superintendent, F. C. Stokoe, Chief Accountant and to all employees for their services throughout the year.

Respectfully submitted,

J. W. JORDAN,
Manager.

Matagami, Quebec,
February 4, 1972.

ORCHAN MINES LIMITED

(Incorporated under the laws of Ontario)

CONSOLIDATED BALANCE SHEET — DECEMBER 31, 1971

(with comparative figures at December 31, 1970)

1971**1970****ASSETS****Current assets:**

Cash and short term deposits	\$ 2,992,142	\$ 5,224,147
Marketable investments, at cost (quoted market value \$920,000)	996,075	
Accounts receivable	75,473	99,024
Current tax payments recoverable	215,951	
Metals on hand, in transit or due for settlement — at estimated net realizable value	4,705,418	4,308,217
Government of Canada special refundable tax		1,337
Stores and prepaid expenses — at cost	323,605	454,064
	<u>9,308,664</u>	<u>10,086,789</u>

Taxes recoverable (note 2)	<u>286,355</u>	<u>286,355</u>
----------------------------	----------------	----------------

Investments in and advances to other companies —

at cost less amounts written off	<u>1,726,539</u>	<u>1,726,512</u>
----------------------------------	------------------	------------------

Fixed assets:

Land, buildings and equipment, at cost —		
Mine site	9,820,451	9,709,002
Zinc reduction plant	6,008,136	5,923,065
	<u>15,828,587</u>	<u>15,632,067</u>
Less accumulated depreciation	<u>10,952,910</u>	<u>9,446,967</u>
	4,875,677	6,185,100
Mining property and claims — at cost less amounts written off	242,127	240,288
Garon Lake project under construction	966,098	530,480
	<u>6,083,902</u>	<u>6,955,868</u>

Preproduction and deferred development expenditures —

at cost less amounts written off	<u>693,677</u>	<u>964,431</u>
	<u><u>\$18,099,137</u></u>	<u><u>\$20,019,955</u></u>

LIABILITIES**Current liabilities:**

Accounts payable	\$ 650,416	\$ 837,304
Taxes payable (notes 1 and 2)		1,322,333
	<u>650,416</u>	<u>2,159,637</u>

Shareholders' equity:

Capital stock —		
Authorized: 6,500,000 shares of \$1 each		
Issued: 6,058,720 shares	6,058,720	6,058,720
Less net discount	2,613,750	2,613,750
	<u>3,444,970</u>	<u>3,444,970</u>
Retained earnings	<u>14,003,751</u>	<u>14,415,348</u>
	<u>17,448,721</u>	<u>17,860,318</u>
	<u><u>\$18,099,137</u></u>	<u><u>\$20,019,955</u></u>

On behalf of the Board:

J. P DOLAN, Director.

D. E. G. SCHMITT, Director.

(See accompanying notes)

CONSOLIDATED STATEMENT OF OPERATIONS AND RETAINED EARNINGS
FOR THE YEAR ENDED DECEMBER 31, 1971
(with comparative figures for 1970)

	1971	1970
Revenue — from metals and custom tolls	\$11,396,714	\$13,585,191
Expense:		
Cost of production	6,082,498	6,404,331
Administrative expense	141,991	173,672
Depreciation	1,568,591	1,553,075
Amortization	272,903	650,557
	8,065,983	8,781,635
Operating income	3,330,731	4,803,556
Interest income	243,066	348,454
	3,573,797	5,152,010
Provision for taxes (notes 1 and 2)	1,385,000	1,962,000
Write down of investments and advances to estimated value	176,906	63,000
	1,561,906	2,025,000
Net income	2,011,891	3,127,010
Retained earnings:		
Opening balance	14,415,348	13,711,826
	16,427,239	16,838,836
Dividends	2,423,488	2,423,488
Closing balance	\$14,003,751	\$14,415,348
Earnings per share	33¢	52¢

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS
FOR THE YEAR ENDED DECEMBER 31, 1971
(with comparative figures for 1970)

	1971	1970
Working capital, beginning of year	\$ 7,927,152	*\$ 6,601,896
Source of funds:		
From operations —		
Net income	2,011,891	3,127,010
Add charges not requiring an outlay of funds:		
Depreciation	1,568,591	1,553,075
Amortization	272,903	650,557
Write down of investments and advances	176,906	63,000
	4,030,291	5,393,642
Application of funds:		
Fixed assets — mine site	156,657	433,792
— zinc reduction plant	106,498	179,299
Deferred preproduction and development	435,618	669,370
Investments and advances	176,933	362,437
Dividends paid	2,423,488	2,423,488
	3,299,194	4,068,386
Net increase	731,097	1,325,256
Working capital, end of year	\$ 8,658,249	\$ 7,927,152

(See accompanying notes)

* Adjusted for reclassification of \$286,355 of taxes recoverable to non-current (note 2).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1971

1. For the Orchan mine, the company claims capital cost allowances and depreciation for federal income tax and Quebec mining duty purposes in excess of the related amounts in the company's accounts and provides in its accounts for taxes payable on its taxable income for the year.

This accounting treatment differs from the tax allocation basis by which the income tax provision is based on income reported in the accounts. If the tax allocation basis had been followed, net income in 1971 would not have been materially affected, whereas in 1970, net income would have been reduced by \$210,000 and earnings per share would have been reduced by 4¢.

The cumulative amount of deferred tax credits to December 31, 1971 would have been \$1,320,000.

2. Bell Allard Mines Limited, a wholly-owned subsidiary consolidated in these accounts, applied to the Department of National Revenue for a three-year exemption from income taxes commencing April 1, 1968. The application has not been granted on the ground that Bell Allard's open pit is an extension to the Orchan mine; however, the directors of Bell Allard dispute this and that company intends to continue filing on a tax exempt basis.

If ultimately Bell Allard does not receive the three year exemption from income taxes, income taxes and accrued interest aggregating approximately \$950,000 for the period April 1, 1968 to March 31, 1971 (1971 — \$100,000; 1970 — \$50,000; 1969 — \$300,000; 1968 — \$500,000) will be payable.

This amount has not been provided for in the accounts. Provision for this amount would have reduced earnings per share by 1¢ (1¢ in 1970).

Payments aggregating \$286,355 on income tax assessments, which are being appealed, are shown as non-current income taxes recoverable and the 1970 amount has been reclassified for comparative purposes.

3. Early in 1963 an action was commenced in the Superior Court of Quebec in which the Plaintiff requested the Court to declare the nullity of the mining concession and the patent therefor issued to Orchan Mines Limited (comprising the whole of the Orchan mining property) and to declare valid and legal the staking by him of certain mining claims covered by this mining concession. This company thereupon filed a defence and Inscription in Law, and since that time no further proceedings have been made by the Plaintiff. In the opinion of the company's solicitors, the action is ill founded.
4. Statutory information — Total remuneration paid in 1971 to directors of the company consisted of directors' fees of \$1,800. Total remuneration of the five highest paid employees of the company (who are not directors or officers) was \$71,450 and pension benefits totalled \$2,398.

AUDITORS' REPORT

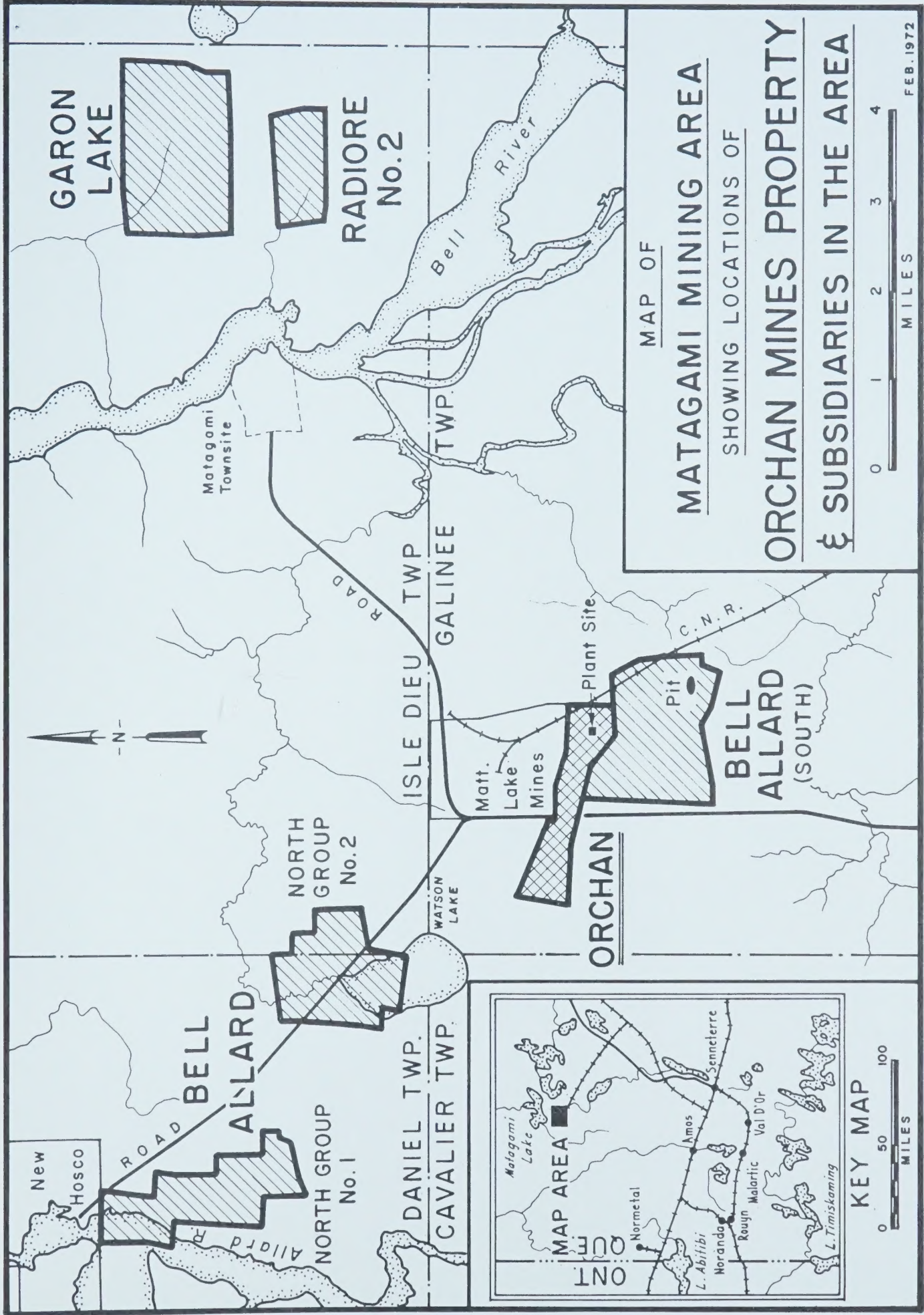
To the Shareholders of
Orchan Mines Limited:

We have examined the consolidated balance sheet of Orchan Mines Limited and its subsidiaries as at December 31, 1971, and the consolidated statements of operations and retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, subject to the possible additional liability for income taxes as explained in note 2, and except that the provisions for income taxes and Quebec mining duties have not been computed on the tax allocation basis as explained in note 1, these consolidated financial statements present fairly the financial position of the companies as at December 31, 1971, and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada,
February 4, 1972.

CLARKSON, GORDON & CO.,
Chartered Accountants.



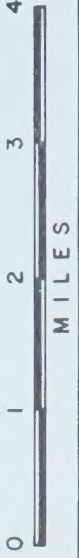
MAP OF

MATAGAMI MINING AREA

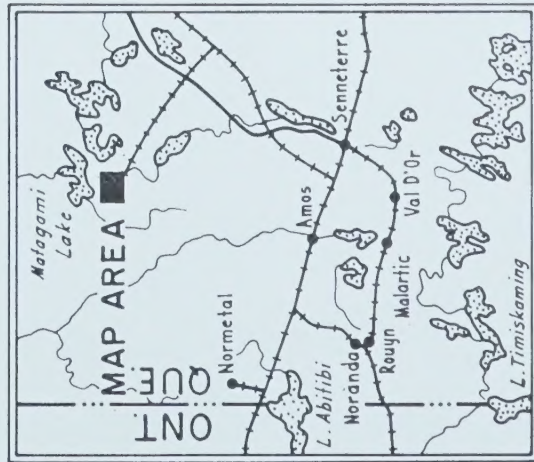
SHOWING LOCATIONS OF

ORCHAN MINES PROPERTY

& SUBSIDIARIES IN THE AREA



FEB. 1972



KEY MAP

